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TAGS: ECON EINV EFIN ETRD BEXP KTDB PGOV SF
SUBJECT: SOUTH AFRICA ECONOMIC NEWSLETTER
August 12 2005 ISSUE

¶1. Summary. Each week, AmEmbassy Pretoria publishes an economic newsletter based on South African press reports. Comments and analysis do not necessarily reflect the opinion of the U.S. Government. Topics of this week's newsletter are:
- Interest Rates Remain Unchanged;
- Gold Strike Lasts 4 Days;
- Manufacturing Shows Improving Growth in June;
- Jobs in Automobile Sector at 7-Year High;
- Stats SA Will Begin New Expenditure Survey; and
- Softening Consumer Demand
End Summary.

INTEREST RATES REMAIN UNCHANGED

¶2. On August 11, the Monetary Policy Committee announced that interest rates would remain unchanged, leaving the repurchase rate at 7 percent. The Committee cited robust domestic demand and an expected increase in inflation over the next few months as reasons for an unchanged monetary stance, although inflation is still expected to remain within the 3 percent to 6 percent targeted band. High oil prices pose the greatest source of future inflationary pressure, even though the Committee's statement gave generally favorable views of domestic inflation. Consumer inflation excluding mortgage costs (CPIX) has remained within the inflation target range of 3-6 percent for the past 22 months. Services inflation has remained higher than goods inflation (6.1 percent vs. 2 percent respectively), although service inflation has declined from the 7 percent level shown in June 2004. Wage and unit labor cost trends have shown recent declines. Wage settlements increased 6 percent for the first half of 2005 compared to 6.8 percent in 2004. Unit labor costs in the non-agricultural sector increased 5.9 percent in the first quarter of 2005, compared to 2004's last quarter increase of 9.8 percent. The Committee statement did not mention any current wage negotiations taking place other than to note that future inflation will depend on these settlements. Source: Statement of the Monetary Policy Committee, August 11; Business Day and Business Report, August 12.

GOLD STRIKE LASTS 4 DAYS

¶3. On August 7, the National Union of Mineworkers (NUM) called for a strike against the gold mining companies. Solidarity, another gold worker trade union, joined the following day. These two unions represent about 75 percent of South African gold miners, or approximately 100,000 out of 130,000 workers. As the cost of the strikes continues to increase, AngloGold Ashanti, Harmony and Gold Fields, which had been negotiating under the auspices of the Chamber of Mines, began to explore separate deals with the unions. At one point, Solidarity had threatened to request that the Commission for Conciliation, Mediation and Arbitration to intervene, suggesting that the Chamber was no longer representing the mining companies. On August 10, the Chamber of Mines offered a wage increase up to 7 percent, the biggest raise in 18 years, a living-out allowance of R1500 a month and a contribution of 1 percent towards the provident fund (employee savings fund). Unions responded by saying that they would recommend the offer to their members, an indication that the 5-day strike might end soon. When the strike started, the unions were demanding between 12 percent and 20 percent wage increases (NUM 20 percent, Solidarity 12 percent) in addition to other benefits and the Chamber of Mines was offering 5 percent. On August 12, the unions formally accepted the Chamber's offer and agreed that wage increases next year would be one point above inflation. Changes to the revised Chamber offer include: a living out allowance of R1,000 per month and R10,000 ($1540 using 6.4 rands per dollar) funeral

allowance. Estimates of the cost of the strike to the gold industry were R130 million ($20 million) in revenue or 40,000 ounces of gold per day. Gold industry analyst Nick Goodwin estimated that the gold price would have to increase by 25 percent for the industry to absorb the increased labor costs assuming no change in other costs. Source: Business Day and Sapa, August 11; Business Day and Business Report, August 12.
¶4. Comment. South Africa accounts for about 15 percent of global gold output and the sector contributes 2 percent to South Africa's GDP and about 10 percent of export revenue. Since 1995 employment in the sector has fallen from 530,000 to 130,000. End comment.

MANUFACTURING SHOWS IMPROVING GROWTH IN JUNE

¶5. Manufacturing production grew by 2.3 percent (y/y) in June 2005, up from May's y/y growth of 1.2 percent. Monthly manufacturing output growth continues to show a rebound in 2005 growth, indicating that production may continue its growth in late 2005. On a seasonally adjusted, month-on-month basis, manufacturing output rose 0.7 percent, compared to a 2.7 percent contraction in May. Manufacturing output grew by a seasonally adjusted rate of 3.2 percent in the second quarter 2005 compared with a 1.9 percent contraction in the first quarter. The biggest contributors to the 3.2 percent quarterly growth in manufacturing output were the petroleum, chemicals, rubber and plastic sectors, which contributed 1.4 percent. These sectors were followed by the food and beverages industry, which added 0.6 percent to manufacturing expansion. The wood, paper, printing and publishing and the basic iron and steel sectors each contributed 0.4 percent to quarterly manufacturing growth. Source: Business Report and Business Day, August 11; Manufacturing Unpacked, Standard Bank, August 10.

JOBS IN AUTOMOBILE SECTOR AT 7-YEAR HIGH

¶6. According to the latest Quarterly Review of Business Conditions, released by the National Association of Automobile Manufacturers of South Africa (NAAMSA), vehicle manufacturers created 773 jobs in the second quarter, bringing the total number of people employed in the industry to 34,431, the highest level in seven years. The report said that a total of 2,295 jobs were created in the previous 15 months. The vehicle manufacturing industry comprises all the major vehicle and specialist commercial truck manufacturers. Nico Vermeulen, NAAMSA's executive director, said two companies had recruited new employees during the second quarter, while other companies recruited only to maintain their workforce. Toyota SA disclosed in July that it had created more than 1,100 jobs at its assembly plant at Prospecton in Durban during the past eight months, with the export of its Hilux truck to more than 70 countries. Nissan SA announced it had created more than 200 jobs after launching a second shift in its Rosslyn manufacturing plant to meet Hardbody pickup export demand. The report mentions that the rising prices of automotive steel continues to increase local content and vehicle production costs, despite cost cutting efforts by vehicle manufacturers in other areas. The NAAMSA report said that capacity utilization levels throughout the vehicle manufacturing industry remained at or near record levels during the second quarter. Capital expenditure by the industry was projected to total R5.9 billion ($922 million, using 6.4 rands per dollar) in 2005. Of this amount, roughly 85 percent (R5.09 billion) would be spent on product, local content, and investment for exports or production facilities. Source: Business Report, August
¶11.

STATS SA WILL BEGIN NEW EXPENDITURE SURVEY

¶7. In September, Statistics SA will start an income and expenditure survey (IES) to update the consumer price index (CPI) basket of goods and services. The survey will measure household incomes and spending patterns of 24,000 homes nationally. The data will be used to re-weight items in the CPI basket, with items on which a large portion of household income is spent having higher weightings. Major changes in the collection of expenditure data are planned in the upcoming IES. A sample size of 24,000 households will asked to complete a diary of purchases for a month and then rely on memory for all semi-and durable goods purchases during the past 11 months. In previous surveys, the entire data collection process took one month. The upcoming IES data collection will take one year. Previously, participating households were interviewed once, now they will be interviewed five times over the month. The last IES was done in 2000 and released in 2002, revealing that the richest 20 percent of the country's households accounted for nearly two-thirds

of spending, while the poor were responsible for only 2.6 percent of expenditure. Source: Business Report and Business Day, August 11.

¶8. Comment. Because such a large number of South African households are maintained by people outside the household, Stats SA will use acquisitions as a measure for expenditure and then ask whether the goods were donated or given as gifts. In past surveys, respondents have been reluctant to divulge information about income and savings. For the upcoming IES, additional information about savings and income is sought. A pilot survey in March 2005 received the lowest response rate from high-security residential areas (63.6 percent) and improved responses from farms and small holdings (88.9 percent). End Comment.

SOFTENING CONSUMER DEMAND

¶9. Retail sales grew by 4.8 percent (y/y) in May, slower than April's 9.3 percent growth. This was the slowest pace of growth in four months, suggesting a slackening of domestic demand, which has been extremely strong due to interest-rate reductions of 6.5 percentage points in the past two years. Future retail sales may show a further indication of cooling demand, as July's car sales showed a six percent month-on-month decline. Expectations in the retail sector remain high, with the latest Retail Trade Survey (released by the Bureau for Economic Research) increasing in the second quarter 2005 to 86, compared with first quarter's 75 level. The stronger index was largely based on improvements in the sales on non-durable items, along with marginal improvements in semi-durables. Source: Business Day, August 11, Taking Stock, Standard Bank, August 10.

FRAZER